

SOUTH CAROLINA
DEPARTMENT OF TRANSPORTATION

SUPPLEMENTAL FEDERAL FINANCIAL
ASSISTANCE REPORTS

YEAR ENDED JUNE 30, 2017



November 28, 2017

Members of the South Carolina Transportation Commission
South Carolina Department of Transportation
Columbia, South Carolina

The supplemental federal financial assistance reports of the South Carolina Department of Transportation and the accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), for the fiscal year ended June 30, 2017, was issued by Scott and Company, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

George L. Kennedy, III, CPA
State Auditor

GLKIII/sag

TABLE OF CONTENTS

Supplemental Federal Financial Assistance Reports

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance and Report on Schedule of Expenditures of Federal Awards.....	3-5
Schedule of Expenditures of Federal Awards.....	6-7
Notes to Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs.....	9-11
Summary Schedule of Prior Audit Findings	11
Views of Responsible Officials and Planned Corrective Actions	12-13



**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Mr. George L. Kennedy, III, CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the South Carolina Department of Transportation (the "Department"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated September 29, 2017. Our report includes a reference to other auditors who audited the financial statements of the Connector 2000 Association, Inc., a discretely presented component unit of the Department, as described in our report on the Department's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Connector 2000 Association, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be material weakness, which is reported as item 2017-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as item 2017-001.

Department's Response to Findings

The Department's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Scott and Company LLC

Columbia, South Carolina
September 29, 2017



Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Mr. George L. Kennedy, III, CPA
State Auditor
State of South Carolina
Columbia, South Carolina

Report on Compliance for Each Major Federal Program

We have audited the South Carolina Department of Transportation's (the "Department") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2017. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Opinion on Each Major Federal Program

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and is described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to this matter.

The Department's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a material weakness.

The Department's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Department, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements. We issued our report thereon dated September 29, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Scott and Company LLC

Columbia, South Carolina
November 28, 2017

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING JUNE 30, 2017**

Federal Grantor / Program Title	Pass-through Entity Identifying Number	Federal CFDA Number	Total Federal Expenditures	Expenditures To Subrecipients
Direct Programs:				
U.S. Department of Transportation				
Highway Planning and Construction Cluster				
Highway Research and Development	20.200	\$	174,260	\$ —
Highway Planning and Construction	20.205		866,533,027	27,290,154
Total Highway Planning and Construction Cluster			866,707,287	27,290,154
Highway Training and Education	20.215		150,000	—
Fixing America's Surface Transportation	20.515		159,626	—
Highway Fuel Tax Evasion-Intergovernmental Enforcement Effort	20.240		345	—
Federal Transit - Metropolitan Transit Planning and State and Non-Metropolitan Planning and Research Grants	20.505		357,334	—
Formula Grants for Rural Areas	20.509		9,993,314	7,747,176
National Infrastructure Investment	20.933		4,721,226	4,721,226
Federal Transit Cluster				
Bus and Bus Facilities Formula Program	20.526		2,067,204	2,067,204
Total Federal Transit Cluster			2,067,204	2,067,204
Transit Services Program Cluster				
Enhanced Mobility for Seniors and Individuals with Disabilities	20.513		2,222,376	1,813,328
Job Access and Reverse Commute Program	20.516		74,800	74,800
New Freedom Program	20.521		53,628	53,628
Total Transit Services Program Cluster			2,350,804	1,941,756
Total Direct Programs			886,507,140	43,767,516

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING JUNE 30, 2017 (CONTINUED)**

Federal Grantor / Program Title	Pass-through Entity Identifying Number	Federal CFDA Number	Total Federal Expenditures	Expenditures To Subrecipients
Passed Through S.C. Emergency Management Division:				
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	FEMA-4166- PA-SC	97.036	851,125	—
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	FEMA-4241- PA-SC	97.036	2,512,300	—
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	FEMA-4286- PA-SC	97.036	17,113,007	—
Total Passed Through From S.C. Emergency Management Division			20,476,432	—
Total Expenditures of Federal Awards			\$ 906,983,572	\$ 43,767,516

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the South Carolina Department of Transportation (the "Department") under programs of the federal government for the year ended June 30, 2017. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended and does not present the net position or changes in net position of the Department.

Note B - Summary of Significant Accounting Policies

- 1 – Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement.
- 2 – The Department has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section I—Summary of Auditor’s Results

Financial Statements:

We have issued an unmodified opinion dated November 28, 2017 on the basic financial statements of South Carolina Department of Transportation.

Internal control over financial reporting:

- Material weaknesses identified? Yes
- Significant deficiency identified? None Reported
- Noncompliance material to financial statements noted? Yes

Federal Awards:

Internal control over major federal programs:

- Material weaknesses identified? Yes
- Significant deficiency identified? None Reported

We have issued an unmodified opinion dated November 28, 2017 on South Carolina Department of Transportation’s compliance for its major programs.

- Any audit finding disclosed that is required to be reported in accordance with 2 CFR 200.516(a)? Yes

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.200 and 20.205	Highway Planning and Construction Cluster

Dollar threshold used to be distinguished between Type A and Type B Programs:	\$3,000,000
---	-------------

Auditee qualified as low-risk auditee?	No
--	----

Section II – Financial Statement Findings

Condition Considered to be a Material Weakness

2017-001 – Accounts Payable and Accounts Receivable not Properly Recorded at June 30, 2017

Condition: The Department's accounts payable and accounts receivable were not presented accurately for the year ended June 30, 2017 due to an error in recording the accounts payable accrual. This error had a corresponding effect on accounts receivable for federally reimbursable projects.

Criteria: Expenses should be recorded in the period incurred with a corresponding entry to accounts payable, if paid after year-end. Amounts reimbursable from the federal government should also be recorded as revenue and accounts receivable.

Cause of Condition: Direct payments made after June 30, 2017 were not included in accounts payable and this was not noted in the Department's review of year end accounts payable.

Effect of condition: Accounts payable were understated by approximately \$39.6 million, which included \$27.3 million in capital expenditures and \$12.3 million in highway maintenance expenditures. Accounts receivable were also understated by approximately \$25.4 million due to the federal reimbursement revenues associated with the \$39.6 million in unaccrued accounts payable. The net effect of this error resulted in a decrease in fund balance of \$14.2 million in fund financial statements and an increase of \$16.7 million for government-wide net position.

Recommendation: We recommend that separate disbursement reports, which include all types of payments subsequent to the fiscal year end, be provided with the accounts payable accrual to aid in management's review of the completeness of accounts payable. We also recommend that management perform a reconciliation of the total disbursements provided in the accounts payable accrual reconciliation to SCEIS to ensure completeness. Once all accounts payable have been recognized, those related to federal reimbursements should be recorded as federal revenue and accounts receivable.

Section III- Federal Award Finding Findings and Questioned Costs

Condition Considered to be a Material Weakness

See 2017-001 above for material weakness finding.

Views of Responsible Officials and Planned Corrective Action – see page 12

Summary Schedule of Prior Audit Findings:

Finding 2016-001 – Year End Closing Adjustments for the Annual Financial Statements

Condition: The Department did not record a year-end adjustment to recognize a receivable and associated revenue for motor fuel user fees that were due to the Department for the month of June 2016. Therefore, both State agency receivables and motor fuel user fee revenue were understated.

Recommendation: We recommend that the Department perform a review of year end accruals as well as an analysis of current year balances as compared to prior year balances to assist in ensuring that all revenues and receivables are properly recorded in accordance with generally accepted accounting principles.

Current Status: The Department implemented the new procedures in fiscal year 2017 and no similar findings were note in the 2017 audit.

Finding 2016-002 – Highway Planning and Construction – CFDA 20.205

Condition: A former Department employee, Field Operations Manager of the Department's Intelligent Transportation Systems division, was indicted with the following charges: one count criminal conspiracy; one count official misconduct in office; three counts of receiving anything of value to influence action of public employees; and one count of acceptance of rebates or extra compensation. The indictment alleges that while he was with the Department, the employee maintained a secret ownership and financial interest in a company doing contract work for his division at the Department, and the employee participated in the awarding and supervision of work to this company. The indictment alleges that the employee improperly received more than \$360,000 as a result of his unlawful financial interest and secret arrangement.

Recommendation: The Department should add an additional level of field approval for invoices and procurements that occur at all District offices.

Current Status: The Department implemented additional levels of approval in fiscal year 2017 and no similar findings were note in the 2017 audit.

November 28, 2017

George L. Kennedy, III, CPA
State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

RE: Management Response Fiscal Year 2017 Audit

Dear Mr. Kennedy,

The South Carolina Department of Transportation (the "Department" or "SCDOT") has reviewed the findings and recommendations in the audit of the financial statements for the fiscal year ended June 30, 2017 and respectfully submits the following Corrective Actual Plan.

The plan outlines actions taken, or to be taken, to address each deficiency contained in the audit reports prepared by Scott and Company LLC (the "Auditor") dated November 28 which include the Report on the Financial Statements, GAS Report on Internal Controls and Uniform Guidance Report on Compliance.

The Department takes the recommendations of the Auditor seriously and views them as an opportunity to make improvements in controls and reporting. The audit condition and recommendation is repeated prior to our response and numbered as in the audit report.

Section II – Financial Statement Findings

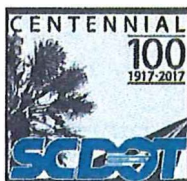
Condition Considered to be a Material Weakness

2017- 001 – Accounts Payable and Accounts Receivable not Properly Recorded at
June 30, 2017

Condition: The Department's accounts payable and accounts receivable were not presented accurately for the year ended June 30, 2017 due to an error in recording the accounts payable accrual. This error had a corresponding effect on accounts receivable for federally reimbursable projects.

Criteria: Expenses should be recorded in the period incurred with a corresponding entry to accounts payable, if paid after year-end. Amounts reimbursable from the federal government should also be recorded as revenue and accounts receivable.

Cause of Condition: Direct payments made after June 30, 2017 were not included in accounts payable and this was not noted in the Department's review of year end accounts payable.



Effect of Condition: Accounts payable were understated by approximately \$39.6 million, which included \$27.3 million in capital expenditures and \$12.3 million in highway maintenance expenditures. Accounts receivable were also understated by approximately \$25.4 million due to the federal reimbursement revenues associated with the \$39.6 million in unaccrued accounts payable. The net effect of this error resulted in a decrease in fund balance of \$14.2 million in fund financial statements and an increase of \$16.7 million for government-wide net position.

Recommendation: We recommend that separate disbursement reports, which include all types of payments subsequent to the fiscal year-end, be provided with the accounts payable accrual to aid in management's review of the completeness of accounts payable. We also recommend that management perform a reconciliation of the total disbursements provided in the accounts payable accrual reconciliation to SCEIS to ensure completeness. Once all accounts payable have been recognized, those related to federal reimbursement should be recorded as federal revenue and accounts receivable.

Agency Response: The Department concurs with this finding and shall implement additional processes and controls to ensure all expenditures are recorded when incurred and accounts payable balances are accurate and complete at fiscal year-end. These additional processes will include a thorough review of year-end accruals verified with and through SCEIS, including detail supporting documentation, and an independent comparative analytical calculation and review of expenditure and payable balances. Appropriate action will be taken as necessary to ensure that all expenditures are recorded in the appropriate fiscal year. Additionally, the Department will ensure that after all accounts payable have been recognized that related federal reimbursements will be properly recorded as federal revenue and accounts receivable. The Department acknowledges that this finding did not misstate nor impact cash balances as reported in the audited financial statements. The new processes and controls will be implemented by January 31, 2018.

Regards,



Brian W. Keys, P.E.
Deputy Secretary for Finance and Administration

BWK:clb

ec: Christy A. Hall, Secretary of Transportation
Wendy B. Nicholas, Chief of Staff
Kace L. Smith, Chief Financial Officer
Michael L. Guffee, Financial Controller

